

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 2914
INFO AMCONSUL PORTO ALEGRE
AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO

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EO 11652 NA
TAGS EMIN ENRG BR
SUBJECT: BRAZILIAN COAL DEVELOPMENTS- NEW RESERVES-PLANS FOR
COAL GASIFICATION AND "COAL/CHEMICAL" CENTER

FOLLOWING MESSAGE PREPARED BY AMCONSUL RIO DE JANEIRO:
BEGIN UNCLASSIFIED

1. BEGIN SUMMARY: MOVEMENT TOWARD REVITALIZATION AND
EXPANSION OF THE BRAZILIAN COAL INDUSTRY HAS ACCELERATED
IN RECENT WEEKS, WITH SIGNIFICANT NEW FINDS OF BOTH
METALLURGICAL AND STEAM COAL REPORTED IN RIO GRANDE DO
SUL (RGS), WHILE INCREASING GOVERNMENT PRIORITY IS BEING
GIVEN TO PLANS FOR GASIFICATION OF PART OF THE STATE'S
MASSIVE STEAM COAL RESERVES (ESTIMATED AT 10 BILLION
TONS OR MORE) AND THEIR USE IN A PROJECTED COAL/CHEMICAL
CENTER. SIMILAR EXPANSION EFFORTS, INCLUDING A SECOND
COAL GASIFICATION PLANT, ARE ALSO PLANNED FOR THE
NEIGHBORING STATE OF SANTA CATARINA (SC). END SUMMARY.

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2. ALTHOUGH THE EXTENT OF RECENT METALLURGICAL (COKING)
COAL RESERVES DISCOVERED IN RIO GRANDE DO SUL (AT
GRAVATAI AND ARARANGUA-TORRES) IS NOT YET KNOWN, COM-
PANHA DE PESQUISAS DE RECURSOS MINERAIS (CPRM)
GEOLOGISTS ARE OPTIMISTIC THAT THE NEW DEPOSITS MAY
PERMIT A SIGNIFICANT REDUCTION IN BRAZIL'S CURRENT
DEPENDENCE ON OVERSEAS SOURCES FOR ROUGHLY 70 PERCENT OF ITS

COKING COAL REQUIREMENTS. CPRM SOURCES CONSIDER THE GRAVATAI RESERVE - THE FIRST METALLURGICAL- GRADE COAL FOUND IN RIO GRANDE DO SUL - TO BE PARTICULARLY PROMISING, WITH PROSPECTS FOR A 60 PERCENT COKE RECOVERY RATE, AS COMPARED TO A PREVIOUS NATIONWIDE AVERAGE OF ONLY 30 PERCENT. DEPARTAMENTO NACIONAL DA PRODUCAO MINERALP(DNPM) TECHNICIANS ESTIMATE THA THE GRAVATAI DEPOSITS MAY REACH 1 BILLION TONS, WHICH WOULD ALLOW BRAIL TO DECREASE ITS COKING COAL IMPORTS BY 40 PERCENT.

3. IN ADDITION TO THE NEW RGS METALLURGICAL COAL RESERVES, AND STEAM COAL DEPOSITS FOUND IN THE IRUI BASIN, 46 MILLIVN TONS OF STEAM COAL WERE RECENTLY DISCOVERED IN THE LAURO MILLER AREA OF SANTA CATARINA, AND COKING COAL AT ARARANGUA, ALSO IN SC. PROJECTS FOR INCREASED EXPLOITATION OF BOTH NEW AND PREVIOUSLY DISCOVERED SANTA CATARINA AND RGS DEPOSITS - IN EFFECT, A REVITALIZATION OF THE TWO STATES' COAL INDUSTRY - HAVE BEEN FORMULATED, WITH POSSIBLE EVENTUAL PRODUCTION OF AS MUCH AS 12 MILLION TONS PER YEAR BY 1985 FROM THE SANTA CATARINA MINES ALONE. (COAL INDUSTRY SPOKESMEN HAVE BEEN ACTIVELY - AND PUBLICLY - SEEKING THE DECONTROL OF COAL PRICES, IN ORDER TO MAKE SUCH PROJECTS MORE ATTRACTIVE ECONOMICALLY.) IN MID-JULY, THE FIRST DELIVERY (BY RAIL) OF RIO GRANDE DO SUL STEAM COAL WASF MADE TO THE SAO PAULO AREA; THE SHIPMENT, PART OF THE LIMITED OFFICIAL USE

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FEDERAL GOVERNMENT'S PLAN TO "RATIONALIZE" (I.E., RESTRAIN- AND DECREASE, WHERE POSSIBLE) THE CONSUMPTION OF PETROLEUM DERIVATIVES THROUGHOUT BRAZIL, WILL REPLACE FUEL OIL AT A JACUPIRANGA CEMENT PLANT.

4. ACCORDING TO PETROBRAS SOURCES, PLANS ARE BEING DEVELOPED WITHIN THE COMPANY FOR THE CONSTRUCTION OF TWO COAL GASIFICATIOM PLANTS IN SOUTHERN BRAZIL, ONE IN RIO GRANDE DO SUL (RGS) AND A SECOND IN SANTA CATARINA. (ENGINEERING WORK IS REPORTEDLY ALREADY UNDER WAY, ALTHOUGH THE GASIFICATION PROCESS TO BE INSTALLED - LIKELY TO BE EITHER LURGI OR KOPPERS/TOTZEK - HAS NOT BEEN SELECTED). THE RGS PLANT WILL BE DESIGNATED TO FURNISH INDUSTRIAL GASES TO THE STATE CAPITAL, PORTO ALEGRE, AS WELL AS TO AMONIA/UREA AND DIRECT REDUCTION STEEL PLANTS IN THE AREA. IN ADDITION, INITIAL PLANNING AND PRELIMINARY ENGINEERING STUDIES ARE BEING CARRIED OUT ON A PROPOSED COAL/CHEMICAL ("CARBOQUIMICO") COMPLEX ASSOCIATED WITH THE RGS GASIFICATION PLANT. COST OF THE GASIFICATION FACILITY IS ABOUT \$200 MILLION, WITH A TOTAL "CARBOQUIMICO" COST ESTIMATE OF \$1.6 BILLION. AN ANNUAL

SUPPLY OF 8.5 MILLION TONS OF COAL WOULD BE REQUIRED FOR THE PROJECT, NEARLY 9 TIMES THE STATE'S CURRENT OUTPUT OF ABOUT 1 MILLION TONS; THE COAL WOULD BE SUPPLIED FROM THE LEAO AND CHARQUEADAS RESERVES.

5. BOTH THE KOPPERS/TOTZEK AND LURGI PROCESSES ARE BEING CONSIDERED FOR THE RGS AND SC COAL GASIFICATION PLANTS, WHILE THE WEST GERMAN WINKLER PROCESS IS CONSIDERED TO BE INEFFICIENT, GIVEN THE NATURE OF RGS

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AND SC COAL (HIGH SULPHUR AND ASH CONTENT). IF A DECISION IS MADE IN THE NEAR FUTURE TO PROCEED WITH ONE OR BOTH OF THE PROJECTS, INITIAL PRODUCTION IS PLANNED FOR 1982. AT THE RGS GASIFICATION PLANT, 5.5 MILLION CUBIC METERS OF COAL GAS WOULD BE PRODUCED PER DAY IN A FIRST PHASE, 2.3 MILLION CUBIC METERS/DAY CONVERTED TO MXTHANOL IN A SECOND PHASE, WITH A FINAL INSTALLED TOTAL CAPACITY OF 14.3 MILLION CUBIC METERS OF GAS PRODUCTION/DAY SCHEDULED FOR 1985.
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6. BEGIN COMMENT: / THE BRAZILIAN GOVERNMENT'S LONG-TIME INTEREST IN MAKING FULLER USE OF THE COUNTRY'S EXTENSIVE COAL DEPOSITS (LARGELY CONCENTRATED IN

RGS AND SANTA CATARINA STATES) HAS BEEN GIVEN A NEW IMPETUS BY THE OIL CRISIS, AND BRAZIL'S RESULTANT \$3.5-4 BILLION ANNUAL BILL FOR IMPORTED PETROLEUM. LIMITED OFFICIAL USE

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SIGNIFICANT NEW DISCOVERIES OF METALLURGICAL COAL AS WELL AS INCREASED RESERVES OF LOWER-GRADE COAL, COMBINED WITH THE GOB'S DESIRE TO RATIONALIZE BRAZIL'S ENERGY CONSUMPTION PATTERNS - PARTICULARLY BY THE SUBSTITUTION OF COAL FOR PETROLEUM DERIVATIVES WHERE POSSIBLE, AS WELL AS BY THE INCREASED USE OF NATIONAL COKING COAL - HAVE PROVIDED STRONG INCENTIVES FOR A MAJOR EXPANSION OF THE COUNTRY'S COAL INDUSTRY. THUS, A NEW CHEMICAL CENTER, ASSOCIATED WITH A LARGE-SCALE COAL GASIFICATION PLANT, WOULD PROVIDE A SIGNIFICANT IMPETUS TO THE GOVERNMENT'S RATIONALIZATION PLAN AND COULD EVENTUALLY PROVIDE GAS, VIA A LONG-DISCUSSED RGS-SAO PAULO PIPELINE, TO MAJOR MARKETS IN THE SAO PAULO/RIO INDUSTRIAL CORRIDOR. IN ADDITION, (COAL) GAS-FIRED, DIRECT REDUCTION STEEL-MAKING FACILITIES - IF THEIR NEW TECHNOLOGY CAN BE PROVEN EFFECTIVE UNDER THE SOMETIMES RIGOROUS BRAZILIAN OPERATING CONDITIONS - COULD REDUCE SIGNIFICANTLY BRAZIL'S DEPENDENCE ON IMPORTED COKING COAL, ALREADY LIKELY TO BE DIMINISHED BY INCREASED USE OF NEW DOMESTIC SUPPLIES OF COKING COAL IN ANY CASE. AT THE SAME TIME, THE SCALE OF THE PROPOSED PROJECTS - \$1.6 BILLION FOR THE "CARBOQUIMICO" CENTER (AND AT LEAST SEVERAL HUNDRED MILLION MORE FOR A RGS-SAO PAULO PIPELINE), PLUS THE IMPRESSIVE START-UP COSTS ASSOCIATED WITH DEVELOPING NEW COAL SOURCES TO PROVIDE SIGNIFICANTLY INCREASED FEEDSTOCK RAW MATERIALS, MAY RESULT IN A GOB DECISION TO DIMINISH THE PROJECTS' SCALE OR DELAY THE TIMETABLE FOR THEIR IMPLEMENTATION. IN ADDITION, THE COAL RESERVE ESTIMATES USED BY PETROBRAS PLANNERS MAY BE SOMEWHAT OPTIMISTIC. ON BALANCE, HOWEVER, THE ADVANTAGES TO BE GAINED BY AN EXPANDED USE OF THE MASSIVE RGS LIMITED OFFICIAL USE

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AND SANTA CATARINA COAL DEPOSITS MAKE IT INCREASINGLY LIKELY THAT THERE WILL BE SIGNIFICANT NEW DEVELOPMENTS IN THE INDUSTRY INCLUDING EXPANDED COKING COAL PRODUCTION, THE CONSTRUCTION OF ONE OR TWO COAL GASIFICATION PLANTS AND, POSSIBLY, A MAJOR COAL/CHEMICAL COMPLEX IN RIO GRANDE DO SUL. END COMMENT.

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Message Attributes

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